



Patrick W. Henning, Director

November 20, 2008
22M:341:JDT:8047:8048



Arnold Schwarzenegger
Governor

Mr. Stewart Knox, Executive Director
North Central Counties Consortium
422 Century Park Dr., Suite B
Yuba City, CA 95991

Dear Mr. Knox:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the North Central Counties Consortium's (NCCC) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Mr. Gerald Lee from June 11, 2008 through June 17, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by NCCC with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of NCCC, a review of applicable policies and procedures, and a review of documentation retained by NCCC for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on October 23, 2008, and reviewed your comments and documentation before finalizing this report. Because your

response adequately addressed finding 3 cited in the draft report, we consider the issue resolved. In addition, your response adequately addressed finding 4 cited in the draft report, and no further action is required at this time. However, this issue will remain open until we verify the implementation of your stated corrective action plan (CAP) during a future onsite review. Until then, this finding is assigned Corrective Action Tracking System (CATS) number 80206.

Conversely, because your response did not adequately address findings 1 and 2 cited in the draft report, we consider these findings unresolved. We request that NCCC provide the Compliance Review Division (CRD) with additional information and/or CAP to resolve the issues that led to the findings. Therefore, these findings remain open and have been assigned CATS numbers 80203 and 80204.

BACKGROUND

The NCCC was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, NCCC was allocated: \$1,475,868 to serve 530 adult participants; \$1,540,644 to serve 393 youth participants; and \$1,049,623 to serve 308 dislocated worker participants.

For the quarter ending March 31, 2008, NCCC reported the following expenditures and enrollments for its WIA programs: \$1,122,358 to serve 878 adult participants; \$1,047,800 to serve 462 youth participants; and \$738,768 to serve 454 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, NCCC is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the areas of program income reporting, payroll and cost allocation. The findings that we identified in these areas, our recommendations, and NCCC's proposed resolution of the findings are specified below.

FINDING 1

Requirement: WIA 195(7)(C) states, in part, that each entity receiving financial assistance under WIA shall maintain records sufficient to determine the amount of income received.

20 CFR 667.200(a)(7) states, in part, that interest income earned on funds received under WIA must be included in program income.

WIAD06-4 states, in part, that interest income earned on funds received under WIA is included as program income and is subject to Job Training Automation System (JTA) quarterly reporting requirements.

Observation: We noted that NCCC did not report any interest income received as program income for their JTA quarterly expenditure reports, as required. The NCCC stated that program income is reported only at the end of the year.

Recommendation: We recommended that NCCC provide a CAP, with a timeline, to CRD describing how it will ensure, in the future, that program income earned from interest will be reported in each JTA quarterly expenditure report.

NCCC Response: The NCCC stated that it will implement a plan which will insure that interest income and any other program income earned will be reported on their quarterly expenditure reports starting the first quarter of PY 2008-09.

State Conclusion: Based on NCCC's response, we cannot resolve this issue at this time. The NCCC stated that program income earned from interest income will be reported on the first quarterly expenditure reports for PY 2008-09. However, in our review of NCCC's JTA quarterly expenditure reports for the September 2008 reporting period for PY 2007-08 and 2008-09 WIA grants, no program income was reported. Therefore, we continue to recommend that NCCC provide a CAP, with a timeline, to CRD describing how it will ensure, in the future, that program income earned from interest will be reported in each JTA quarterly expenditure report. Until then, this issue remains open and has been assigned CATS number 80203.

FINDING 2

Requirement: Office of Management and Budget (OMB) A-87, Attachment B8(h)(4 through 6) states, in part, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or

equivalent documentation. These personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee. They must be prepared at least monthly, coincide with one or more pay periods, and be signed by the employee. Additionally, substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. However, a statistical sampling system or other substitute system must be approved by the LWIA's cognizant federal agency.

The U.S. Department of Labor Employment and Training Administration One-Stop Financial Management Technical Assistance Guide (DOL TAG) adds: OMB Circulars A-87 and A-122 require Federal cognizant agency approval of any time distribution system that does not rely on daily time distribution records (usually a time sheet). If an organization does not have a Federal cognizant agency, it must carefully document the method used to charge time and how that method complies with the requirements found in the circulars.

Observation:

The NCCC's subrecipient, Yuba County Office of Education (COE), neither tracks time spent on WIA grants on daily time distribution records nor performs any reconciliation of its time charges. Instead, Yuba COE is utilizing an ongoing quarterly time study that captures the first month of actual data to be applied to each remaining month in the same quarter for its various programs. This sampling/substitute system to allocate wages does not have federal cognizant agency approval not does it have any approval to exempt the entity from compliance with the "after-the-fact" distribution of time charges. The Yuba COE states that it does not have a federal cognizant agency.

Recommendation: We recommended that NCCC submit a CAP to CRD to ensure that its subrecipients will, in the future, take action to modify its payroll time distribution system to directly charge WIA expenditures to the appropriate funding sources.

NCCC Response: The NCCC stated that the Yuba COE is now documenting their staff time distribution on a monthly basis. This procedure began July 1, 2008 and will continue into PY 2008-09 and the future. The procedure will ensure that all WIA expenditures are being charged to the appropriate funding source as required in OMB Circular A-87.

State Conclusion: Based on NCCC's response, we cannot resolve this issue at this time. While NCCC's response indicates that YUBA COE is now tracking time spent on WIA funding sources, it did not provide any documentation to substantiate Yuba COE's actions. As a result, we recommend that NCCC provide documentation to substantiate that Yuba COE is currently tracking time spent on WIA funding sources. Until then, this finding will remain open and is assigned CATS number 80204.

FINDING 3

Requirement: OMB Circular A-87, Attachment A, Section (C)(2)(a) states, in part, in determining reasonableness of a given cost, considerations shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the government unit or the performance of the Federal award.

OMB Circular A-87, Attachment A, Section (C)(3)(a) states, in part, that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance to the relative benefits received.

The DOL TAG, Part II, Chapter 8, states, in part, that allocation bases should measure actual cost or effort expended. Methodologies which are based on relative funds available or on predetermined data are unacceptable.

Observation: We observed that one of NCCC's subrecipients allocated WIA expenditures based on a predetermined estimate. Specifically, Glenn County Human Resource Agency (HRA) allocated \$149.93 for Network Solutions (website developer) for the rights to three domain names under Fosteryouth.com, Fosteryouth.org, and Fosteryouth.net. The cost was distributed 50-percent WIA allocation and 50-percent CalWorks. We asked Glenn County HRA how the percentage was derived and Glenn County HRA was unable to provide a definable basis for the expense, therefore the allocation for this expense was not based on actual benefit received. In addition, the expense specifically serves Foster Youths and does not benefit other WIA grants besides the WIA Youth grant.

Recommendation: We recommended that NCCC advise its subrecipient to re-allocate the Network Solutions cost to the appropriate WIA grant and other benefiting cost objectives and provide CRD with documentation of its actions.

NCCC Response: The NCCC stated that HRA feels that there is a benefit provided to WIA as a result of the three websites. According to HRA, the websites are used to bring foster youth and aged-out foster youth into the One-Stop that is housed in the HRA facility. Consequently, all foster youth participants that are served by the One-Stop benefit by the information provided on the web sites.

State Conclusion: This issue is resolved.

In addition to the findings above, we identified a condition that may become a compliance issue if not addressed. Specifically, NCCC's subrecipient, Glenn County HRA, does not have a complete written cost allocation plan. The DOL TAG, Part II, Chapter 8 states, in part, that cost allocation plans should include: 1) an organization chart; 2) description of the types of services; 3) copy of official financial statements; 4) expense item included in the cost of services; 5) description of the methods used in distributing the expenses; and 6) certification by an authorized subrecipient official, as specified. The current cost allocation plan lacks all of the above except item 5.

Although we were able to review the cost allocation used by NCCC for actual expenses, we noted that this allocation methodology appears to be inconsistent with the methodology discussed within its cost allocation plan. As a result, the same distribution of costs could not be replicated by using the method contained in its cost allocation plan. We suggest that NCCC require Glenn County HRA to develop a complete cost allocation plan in accordance with the DOL TAG.

In its response, NCCC stated that Glenn County HRA utilizes a broad county-wide cost allocation plan that HRA must adhere to. In addition, HRA has established an allocation process that is used to allocate WIA expenditures. A copy of this process, a Glenn County HRA organization chart, and a Negotiation Agreement of the Countywide Cost Allocation Plan signed by California State Controller, John Chiang and Glenn County Director of Finance, Don Santoro, was provided for review. The NCCC adequately addressed our concern and no further action is necessary.

PROCUREMENT REVIEW RESULTS

While we concluded that, overall, NCCC is meeting applicable WIA requirements concerning procurement, we noted an instance of noncompliance in the area of

property management. The finding that we identified in this area, our recommendation, and NCCC's proposed resolution of the finding is specified below.

FINDING 4

Requirement: 29 CFR 97.20(b)(3) states, in part, that effective control and accountability must be maintained for all property. Subgrantees must adequately safeguard all property. Further, 29 CFR 97.32(d)(3) states that a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

Observation: We reviewed the property records of NCCC's subrecipient, Yuba COE, and were unable to verify the serial number of a fileserver procured on June 17, 1997. Specifically, we found an item resembling the equipment, but the serial number did not match.

Recommendation: We recommended that NCCC and its subrecipients reconcile its physical inventory with the property records. We further recommended that NCCC provide CRD with the complete property record once it has been reconciled, including the disposition data on the fileserver, if necessary.

NCCC Response: The NCCC received information from the Yuba COE Coordinator of Fiscal Services explaining that the person who assisted the monitor during the Fiscal and Procurement onsite review referred the monitor to the wrong fileserver and subsequently, the serial number on the server did not match the serial number in the property records. The server in question, according to the Coordinator of Fiscal Services, was removed from service and was stored in a storage room. The server, serial number, and tag number have been verified and the unit will be declared as excess. The NCCC visited the Yuba COE and verified this information.

State Conclusion: The NCCC's stated corrective action should be sufficient to resolve. However, we cannot close this issue until NCCC provides CRD with the disposition of the server in question. Until then, this issue remains open and has been assigned CATS number 80206.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy

Mr. Stewart Knox

-8-

November 20, 2008

of this report to your office on the date indicated above, we request your response no later than December 22, 2008. Please submit your response to the following address:

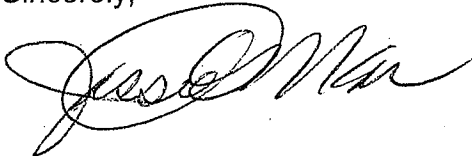
Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all the areas included in our review. It is NCCC's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain NCCC's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechelle Hayes at (916) 654-7005.

Sincerely,



JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Linda Beattie, MIC 50
Jose Luis Marquez, MIC 50
Don Migge, MIC 50
Daniel Patterson, MIC 45